

How to effectively assess the expectations and outcomes of your Merchandising Strategy specific to optimizing the net contribution of every revenue dollar booked to the P&L.

Our team was asked to accurately assess the results of three vastly unique merchandising strategies in order to provide the retailer with insights that would allow the executive team to make an informed decision to; A) expand the merchandising strategy, B) modify elements to better optimize the benefits, or C) scrap the initiative.

The three merchandising strategies are:

1. Evaluate the impact of 2 promotions targeting the value per customer spend of the top quartile loyalty card holders
2. Develop alternative merchandising plan-O-grams to drive sales, items and margin
3. Deployment of an expanded private label assortment into a key category to drive net contribution

PROMOTIONAL EVENTS – Which offering drove the greatest improvement in profitable sales (net contribution)?

Promotion Event A - \$5.00 off \$30

- Top 25% Quartile (spend) card holders 12 weeks prior to promo event
 - VPC = \$18.70
 - IPC = 4.1
 - MPCE = \$4.39 a 23.5% margin
- Top 25% Quartile (spend) card holders 12 weeks after promo event
 - VPC = \$22.18
 - IPC = 5.6
 - MPCE = \$3.08 a 13.9% margin

Promotion Event B – 20% off the highest valued item

- Top 25% Quartile (spend) card holders 12 weeks prior to promo event
 - VPC = \$18.33
 - IPC = 4.1
 - MPCE = \$4.07 a 22.2% margin
- Top 25% Quartile (spend) card holders 12 weeks after promo event
 - VPC = \$19.62
 - IPC = 4.4
 - MPCE = \$4.10 a 20.9% margin

Promotional event A vs B which was the best for the P&L

| Promo event (A - West) - \$ OFF MIN VALUE | 12 week cycle BEFORE | 12 week cycle AFTER |
|---|----------------------|---------------------|
| CUSTOMERS TARGETED | TOP 25% VPC | |
| VPC - value per customer | \$ 18.70 | \$ 22.18 |
| VPI - value per item | \$ 4.56 | \$ 3.96 |
| IPC - items per customer | 4.1 | 5.6 |
| Gross Margin Rate | 23.50% | 13.90% |
| MPCE - margin per customer event | \$ 4.39 | \$ 3.08 |

| Promo event (B - East) - % OFF Top Value Item | 12 week cycle BEFORE | 12 week cycle AFTER |
|---|----------------------|---------------------|
| CUSTOMERS TARGETED | TOP 25% VPC | |
| VPC - value per customer | \$ 18.33 | \$ 19.62 |
| VPI - value per item | \$ 4.46 | \$ 4.41 |
| IPC - items per customer | 4.11 | 4.45 |
| Gross Margin Rate | 22.20% | 20.90% |
| MPCE - margin per customer event | \$ 4.07 | \$ 4.10 |

The promotion targeted the retailers top revenue quartile (loyalty card holder) specifically their average spend using VPC and MPCE (margin per customer event) as the measureable indices.

Promotion A

VPC increased from \$18.70 to \$22.18

MPCE decreased from \$4.39 to \$3.08

Margin decreased from 23.5% to 13.9%

Promotion B

VPC increased from \$18.33 to \$19.62

MPCE increased from \$4.07 to \$4.10

Margin decreased from 22.2% to 20.9%

While promotion A drove a higher sales increase it did so by cannibalizing margin, promotion B however drove a balanced improvement in both VPC & MPCE...

ALTERNATIVE MERCHANDISING – What is the financial impact of creating tactical secondary merchandising locations? To be more specific, is the initiative optimizing the net contribution of every revenue dollar booked to the P&L.

Target is to drive incremental sales and turns during key foot traffic windows... in this case M-F between 4p and 7p

We established a control group which would mirror the test group where the secondary merchandising location was created.

Control Group – no secondary locations (ORANGE)

- 26 Weeks before test
 - VPC = \$20.16
 - VPI = \$3.11
 - IPC = 6.09
 - 45.4% of sales had milk during this window
 - ½ GALLON = 58% of purchases w/4.44 IPC
 - GALLON = 32% of purchases w/4.39 IPC
- 26 Weeks after test
 - VPC = \$20.25
 - VPI = \$3.32
 - IPC = 6.1
 - 45.5% of sales had milk during this window
 - ½ GALLON = 57.8% of purchases w/4.49 IPC
 - GALLON = 33.1% of purchases w/4.31 IPC

Test Group – added Front End secondary locations (GREEN)

- 26 Weeks before test
 - VPC = \$19.41
 - VPI = \$3.12
 - IPC = 6.22
 - 46.5% of sales had milk during this window
 - ½ GALLON = 58.2% of purchases w/4.76 IPC
 - GALLON = 34.8% of purchases w/4.28 IPC
- 26 Weeks after test
 - VPC = \$23.59
 - VPI = \$3.49
 - IPC = 6.76
 - 51.8% of sales had milk during this window
 - ½ GALLON = 42.3% of purchases w/4.91 IPC
 - GALLON = 61.2% of purchases w/5.13 IPC

Secondary location – Key Dairy items staged Milk at/near front end – key sku was gallon milk options for easy grab and go

| M-F WEEKDAY - 4P - 7P | | | |
|--------------------------------------|----------------------|----------------------------|------------------|
| Locations - Enhanced Merchandise Set | 26 week cycle BEFORE | 26 week cycle AFTER | performance rate |
| Category - TARGETED | | MILK - EXPRESS & USCAN Set | |
| VPC - value per customer | \$ 19.41 | \$ 23.59 | 21.6% |
| VPI - value per item | \$ 3.12 | \$ 3.49 | 11.9% |
| IPC - items per customer | 6.22 | 6.76 | 8.7% |
| % OF TOTAL TRANSACTIONS | 46.5% | 51.8% | 11.3% |
| % OF TOTAL SALES | 23.9% | 27.2% | 13.8% |
| 1/2 GAL as a % of Total Transactions | 58.2% | 42.3% | -27.3% |
| IPC - when 1/2 GAL is purchased | 4.76 | 4.91 | 3.2% |
| GAL as a % of Total Transactions | 34.8% | 61.2% | 75.9% |
| IPC - when GAL is purchased | 4.28 | 5.13 | 19.9% |

| M-F WEEKDAY - 4P - 7P | | | |
|--------------------------------------|----------------------|----------------------------------|------------------|
| Locations - Standard Set | 26 week cycle BEFORE | 26 week cycle AFTER | performance rate |
| Category - TARGETED | | MILK - Standard Dairy Cooler Set | |
| VPC - value per customer | \$ 20.16 | \$ 20.25 | 0.5% |
| VPI - value per item | \$ 3.31 | \$ 3.32 | 0.3% |
| IPC - items per customer | 6.09 | 6.1 | 0.2% |
| % OF TOTAL TRANSACTIONS | 45.4% | 45.5% | 0.1% |
| % OF TOTAL SALES | 22.6% | 22.5% | -0.5% |
| 1/2 GAL as a % of Total Transactions | 58.0% | 57.8% | -0.2% |
| IPC - when 1/2 GAL is purchased | 4.44 | 4.49 | 1.1% |
| GAL as a % of Total Transactions | 32.9% | 33.1% | 0.6% |
| IPC - when GAL is purchased | 4.39 | 4.31 | -1.8% |

The locations with the secondary location assortment showed a significant improvement across several indices vs the control locations

VPC improved 21% vs 0.5%

VPI improved 11.9% vs 0.3%

IPC improved 8.7% vs 0.2%

Gallon Milk purchases increased 75% and the number of other items purchased when Gallon Milk was purchased increased 19.9% from 4.28 to 5.13

PRIVATE LABEL INITIATIVE – Department HBC - analgesic category. Our team identified & gathered the necessary data elements, we then loaded them into our data repository to create actionable insights via our Slim methodology... thus allowing our team to isolate and quantify the full financial impact the initiative will have on the department/category’s overall P&L contribution. To be more specific, is the initiative optimizing the net contribution of every revenue dollar booked to the P&L.

KEY STATS of Category - 26 Weeks before the category reset

- 521 total SKU Count
 - Overall sales distribution = 2.02% with a margin of 27.34%
 - VPC = \$4.43
 - VPI = \$4.94
 - IPC = 0.90
 - MPIS = \$1.35
- 498 were National Brands
 - 95.3% of category sales with a margin of 25.9%
 - VPC = \$4.35
 - VPI = \$5.04
 - IPC = 0.86
 - MPIS = \$1.31
- 23 were “discount-type” SKU
 - 4.41% of category sales with a margin of 47.1%
 - VPC = \$6.09
 - VPI = \$3.88
 - IPC = 1.57
 - MPIS = \$1.83

KEY STATS of Category - 26 Weeks after the category reset

- 623 total SKU Count
 - Overall sales distribution = 2.13% with a margin of 35.14%
 - VPC = \$4.91
 - VPI = \$4.16
 - IPC = 1.18
 - MPIS = \$1.46
- 412 were National Brands
 - 66.13% of category sales with a margin of 27.32%
 - VPC = \$4.25
 - VPI = \$4.98
 - IPC = 0.85
 - MPIS = \$1.36
- 211 were NEW PRIVATE LABEL SKU
 - 33.8% of category sales with a margin of 50.01%
 - VPC = \$6.96
 - VPI = \$3.18
 - IPC = 2.19
 - MPIS = \$1.59

Private Label expansion into a key category

| Private Label Kick Off - departmental impact | BEFORE - 26 Week sales cycle | POST - 26 week sales cycle |
|--|---|----------------------------|
| Department (MAJOR) | Departmental MAJOR - total minor departments | |
| Assortment SKU count | 521 | 623 |
| distribution % (major) | 0.76% | 0.90% |
| Sales | \$ 262,400 | \$ 318,456 |
| distribution % (company) | 2.02% | 2.13% |
| Customers | 59,221 | 64,854 |
| distribution % (company) | 10.79% | 10.48% |
| Items | 53,077 | 76,479 |
| distribution % (company) | 1.90% | 2.41% |
| Markdowns | \$ 55,011 | \$ 50,069 |
| distribution % (company) | 1.42% | 1.15% |
| Margin | \$ 207,389 | \$ 268,387 |
| margin rate as a % of sales | 27.34% | 35.14% |
| DPC - dollar per customer | \$ 4.43 | \$ 4.91 |
| DPI - dollar per item | \$ 4.94 | \$ 4.16 |
| IPC - items per customer | 0.90 | 1.18 |
| MPIS - margin per item sold | \$ 1.35 | \$ 1.46 |
| Department (minor) | National Brand | |
| Assortment SKU count | 498 | 412 |
| distribution % (major) | 95.59% | 66.13% |
| Sales | \$ 245,678 | \$ 208,668 |
| Customers | 56,477 | 49,088 |
| Items | 48,766 | 41,902 |
| Markdowns | \$ 54,899 | \$ 48,670 |
| distribution % (major) | 99.80% | 97.21% |
| Margin | \$ 63,844 | \$ 57,008 |
| margin rate as a % of sales | 25.99% | 27.32% |
| DPC - dollar per customer | \$ 4.35 | \$ 4.25 |
| DPI - dollar per item | \$ 5.04 | \$ 4.98 |
| IPC - items per customer | 0.86 | 0.85 |
| MPIS - margin per item sold | \$ 1.31 | \$ 1.36 |
| Department (minor) | Private Label | |
| Assortment SKU count | 23 | 211 |
| distribution % (major) | 4.41% | 33.87% |
| Sales | \$ 16,722 | \$ 109,788 |
| Customers | 2,744 | 15,766 |
| Items | 4,311 | 34,577 |
| Markdowns | \$ 112 | \$ 1,399 |
| distribution % (major) | 0.20% | 2.79% |
| Margin | \$ 7,891 | \$ 54,910 |
| margin rate as a % of sales | 47.19% | 50.01% |
| DPC - dollar per customer | \$ 6.09 | \$ 6.96 |
| DPI - dollar per item | \$ 3.88 | \$ 3.18 |
| IPC - items per customer | 1.57 | 2.19 |
| MPIS - margin per item sold | \$ 1.83 | \$ 1.59 |

The category reset drove favorable results in several indices, which ultimately drive measureable P&L improvement:

Revenue contribution = +11bps from 2.02% to 2.13%

Category Margin increased from 27.3% to 35.1%

MPIS (margin per item sold) increased from \$1.35 to \$1.46

